

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

TRANSFERRING FIRST-CLASS MAIL PARCELS
TO THE COMPETITIVE PRODUCT LIST

Docket No. MC2015-7

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**
(June 26, 2017)

The Postal Service hereby files its Response to Chairman's Information Request No. 2 ("ChIR No. 2"), issued on May 25, 2017, requesting responses to Questions 1 through 9 on or before June 26. In this document, each of the Commission's questions is stated verbatim and is followed by the Postal Service's response.

In ChIR No. 2, the Commission summarized the procedural history of the Postal Service's Request to Transfer First-Class Mail Parcels to the Competitive Product List (the "Request"), noting that nearly 30 months had passed since the filing of the Request. The Postal Service appreciates this opportunity to provide updated information in order to facilitate and expedite the Commission's consideration of the issues on remand using the most recent data and information available.

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Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

David H. Rubin
Acting Chief Counsel
Pricing & Product Support

John F. Rosato
Maria W. Votsch

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1135
(202) 268-6525, FAX: -6187
Maria.W.Votsch@usps.gov
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1. Please provide an update to the Mail Classification Changes appearing in the Request, Attachment C to reflect currently available information and any other additional information that the Postal Service finds necessary for the Commission's consideration.

RESPONSE:

In Attachment 1 to this Response, the proposed Mail Classification Schedule ("MCS") changes that were included with the Request have been updated to reflect the subsequent procedural history of this matter as well as additional updates to the MCS that have occurred since the Request was filed. In Order No. 2686, the Commission denied the Postal Service's Request to Transfer First-Class Mail Parcels ("FCMP") – both Retail (Single-Piece) and Keys and Identification Devices – to the Competitive Product List.¹ Following the Postal Service's petition for review by the United States Court of Appeals for the District of Columbia Circuit, the D.C. Circuit remanded the portion of the Order that had denied transfer of the FCMP Retail (Single-Piece) category.² Because the Postal Service did not seek review of the portion of Order No. 2686 denying its request to transfer FCMP (Keys and Identification Devices), that portion of Order No. 2686 still stands.³ The proposed MCS changes included in Attachment 1 to this Response are therefore intended to reflect all changes that would be required to the current version of the MCS following the transfer of the First-Class Mail Parcels Retail (Single-Piece) price category to the competitive First-Class Package Service ("FCPS") product. All existing provisions relating to the Keys and Identification

¹ Order No. 2686, Order Denying Transfer of First-Class Mail Parcels to the Competitive Product Category (Aug. 26, 2015).

² *United States Postal Service v. Postal Regulatory Commission*, No. 15-1338 (D.C. Cir. Dec. 6, 2016).

³ *Id.*

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Devices price category have been moved to the portion of the MCS addressing the closest remaining market dominant First-Class Mail product, First-Class Mail Flats.

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2. Please refer to the Request, Attachment B at 4, Table: "Market Share of New First-Class Package Service (Including First-Class Mail Parcels Volume)," which contains market share data. Please provide:
- An updated version of this table; and
 - A version of this table with information isolating the current First-Class Mail Parcels Retail (Single-Piece) price category.

RESPONSE:

- a. The table included in the Request (Attachment B at 4) provided the market share by volume of the proposed new First-Class Package Service product, including FCMP volume, as of 2013. Updating the table to reflect market share as of Fiscal Year 2016 – the most recent complete fiscal year for which data are available – yields the following results:

**Market Share of New First-Class Package Service
(Including First-Class Mail Parcels Volume)**

	2-3 Day and Ground Markets ⁴ (Up to 70 lbs.)	2-3 Day and Ground Markets (Under 1 lb.) ⁵	Entire Parcel Market ⁶
2016 Market Share Volume	8.6%	35.9%	7.9%

Source: The Colography Group, Inc.

⁴ "2-3 Day and Ground Markets (Up to 70 lbs.)" includes commercial carrier 2-3 day air and ground parcel volume weighing up to 70 pounds (pieces); and USPS total package services volume for: First-Class Mail Parcels (Retail), First-Class Package Service (Commercial), Priority Mail, USPS Retail Ground/Alaska Bypass, Parcel Select, Parcel Select Lightweight, Parcel Return Service, Bound Printed Matter Parcels, Library Mail/Media Mail and USPS Marketing Mail/Standard Mail Parcels.

⁵ "2-3 Day and Ground Markets (Under 1 lb.)" is a subset of "2-3 Day and Ground Markets (Up to 70 lbs.)" and excludes volume classified as envelopes or letters.

⁶ In addition to all 2-3 day and ground volume, "Entire Parcel Market" includes commercial carrier overnight air services and USPS Priority Mail Express.

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- b. The following new version of the table, provided in response to Question 2.b, isolates the current FCMP Retail (Single-Piece) price category, and provides the market share for that category alone using the same market definitions included in the previous table.

Market Share of Current First-Class Mail Retail Parcels Volume Alone

	2-3 Day and Ground Markets (Up to 70 lbs.)	2-3 Day and Ground Markets (Under 1 lb.)	Entire Parcel Market
2016 Market Share Volume	2.1%	8.8%	1.9%

Source: The Colography Group, Inc.

In other words, the table provided in response to Question 2.b shows the market share for the current FCMP category that would be transferred if the Request is approved.

The table provided in response to Question 2.a shows the market share for the combined competitive FCPS product after the requested transfer.

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3. Please confirm that from FY 2012 to FY 2016, the first ounce price for First-Class Mail Parcels Retail (Single-Piece) increased by 34.7 percent, from \$1.710 to \$2.620. If not confirmed, please explain.

RESPONSE:

Not confirmed. As indicated, the price increase was from \$1.710 to \$2.620, or 91 cents.

When 91 cents is expressed as a percentage of the more recent price of \$2.62, it does equal 34.7 percent. Nonetheless, it would seem that the percentage price increase is more properly calculated using the base price (\$1.71) as the denominator, suggesting an actual price increase of $\$0.91/\1.71 , or 53.2 percent.

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4. Please confirm that from FY 2012 to FY 2016, the average revenue per piece for First-Class Mail Parcels Retail (Single-Piece) increased by 31.4 percent, with average revenue per piece increasing from \$2.11 to \$2.77. If not confirmed, please explain.

RESPONSE:

Not confirmed. The Postal Service is unable to duplicate the calculations for average revenue per piece calculated by the Commission. For this question, the Postal Service will use the volumes and revenues shown in the publicly filed Billing Determinants for FCMP in the FY 2012 and FY 2016 Annual Compliance Reports. FY 2012 volumes and (calculated) revenues were 293,412,826 pieces and \$680,049,194, resulting in revenue per piece of \$2.32. The volumes and (calculated) revenues for FY 2016 were 253,944,932 pieces and \$759,315,106, resulting in a revenue per piece calculation of \$2.99. The percentage increase from \$2.32 to \$2.99 is 28.9 percent, not 31.4 percent.

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5. Please confirm that from FY 2012 to FY 2016, volume for First-Class Mail Parcels Retail (Single-Piece) has decreased by 13.4 percent, with annual volume decreasing from 293.4 million to 253.9 million pieces. If not confirmed, please explain.

RESPONSE:

Confirmed, with the clarification that the percentage decrease is 13.5 percent, not 13.4 percent. The Postal Service can confirm the volume numbers (see volumes in the answer to question 4 above), but cannot duplicate the Commission's percentage calculation with either the unrounded numbers of 293,412,826 and 253,944,932 ($(253,944,932 - 293,412,826) / 293,412,826 = 0.134515$ or 13.5 percent) or the rounded numbers provided by the Commission ($(253.9 - 293.4) / 293.4 = 0.134628$ or 13.5 percent.). Based on the Postal Service's calculations, volume for First-Class Mail Parcels Retail (Single-Piece) decreased by 13.5 percent from FY 2012 to FY 2016.

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6. Please confirm that the prices for First-Class Mail Parcels Retail (Single-Piece) are currently higher than the prices for competitive First-Class Package Services. If not confirmed, please explain.

RESPONSE:

Confirmed.

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7. Please confirm that the mail preparation requirements for First-Class Mail Parcels Retail (Single-Piece) and competitive First-Class Package Services are currently the same. If not confirmed, please explain.

RESPONSE:

Not confirmed. FCPS pieces require certain markings on the front of the piece, while FCMP pieces do not. See Domestic Mail Manual ("DMM") §§ 135.1.a & 285.1.a. Other requirements also differ between the two categories. For example, with respect to content standards, FCMP may be used for any mailable matter, including documents and personal correspondence, while FCPS may not contain documents or personal correspondence. *Compare* DMM § 133.3.1 *with* DMM § 283.2.1. It should be noted that the Postal Service has no plans at this time to change the mail preparation requirements for either category following the requested transfer. In addition, as explained in the Request (at p. 2), the new FCPS Retail category would maintain FCMP's existing service standards and ounce-based pricing structure.

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8. Please confirm that the Postal Service has entered into over 100 competitive First-Class Package Service Negotiated Service Agreements since FY 2012.

RESPONSE:

Confirmed. From FY 2012 through the present, the Postal Service has entered into over 100 competitive Negotiated Service Agreements ("NSAs") that include FCPS as one of the products provided under the contract. By way of further explanation, many of these NSAs covered both FCPS and other products such as Priority Mail and/or Priority Mail Express.

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9. Please provide an update to the Statement of Supporting Justification appearing in the Request, Attachment B to reflect any currently available and relevant information and any other additional information that the Postal Service finds necessary for the Commission's consideration.

RESPONSE:

Please see Attachment 2 to this Response.

Attachment 1

Mail Classification Changes

(Additions are underlined and deletions are marked by strike-through. Some unchanged language is included, but only to show the location of the changes.)

1000

MARKET DOMINANT PRODUCT LIST

FIRST-CLASS MAIL*

Single-Piece Letters/Postcards

Presorted Letters/Postcards

Flats

~~Parcels~~

Outbound Single-Piece First-Class Mail International

Inbound Letter Post

* * * * *

1100 First-Class Mail

* * * * *

1100.2 Products Included in Class

- Single-Piece Letters/Postcards (1105)
- Presorted Letters/Postcards (1110)
- Flats (1115)
- ~~Parcels (1120)~~
- Outbound Single-Piece First-Class Mail International (1125)
- Inbound Letter Post (1130)

* * * * *

1115 Flats

1115.1 Size and Weight Limitations

Flats

	Length	Height	Thickness	Weight
Minimum	5 inches	3.5 inches	0.007 inch	none
and at least one dimension exceeds	11.5 inches	6.125 inches	0.25 inch	
Maximum	15 inches	12 inches	0.75 inch	13 ounces

Letter Shaped Mail Exceeding 3.5 Ounces subject to Flats pricing

	Length	Height	Thickness	Weight
Minimum	5 inches	3.5 inches	0.007 inch	>3.5 ounces
Maximum	11.5 inches	6.125 inches	0.25 inch	13 ounces

Keys and Identification Devices

	<u>Length</u>	<u>Height</u>	<u>Thickness</u>	<u>Weight</u>
<u>Minimum</u>	<u>not applicable</u>			<u>none</u>
<u>Maximum</u>	<u>not applicable</u>			<u>2 pounds</u>

1115.2 Minimum Volume Requirements

		Minimum Volume Requirements
Flats	Single-Piece	none
	Presorted	500 pieces per mailing
	Mixed ADC	500 pieces per mailing
	ADC	500 pieces per mailing
	3-Digit	500 pieces per mailing
	5-Digit	500 pieces per mailing
<u>Keys and Identification Devices</u>		<u>none</u>

1115.3 Price Categories

The following price categories are available for the product specified in this section:

- Automation
 - 5-Digit
 - 3-Digit
 - ADC
 - Mixed ADC
- Presorted
- Single-Piece
- Move Update Assessment Charge
- Flat Round-Trip Mailer
- Keys and Identification Devices – Payment is due on delivery unless an active Business Reply Mail advance deposit account is used.

* * * * *

1115.5 Prices

Automation Flats

Maximum Weight (ounces)	5-Digit (\$)	3-Digit (\$)	ADC (\$)	Mixed ADC (\$)
1	0.446	0.630	0.670	0.750
2	0.656	0.840	0.880	0.960
3	0.866	1.050	1.090	1.170
4	1.076	1.260	1.300	1.380
5	1.286	1.470	1.510	1.590
6	1.496	1.680	1.720	1.800
7	1.706	1.890	1.930	2.010
8	1.916	2.100	2.140	2.220
9	2.126	2.310	2.350	2.430
10	2.336	2.520	2.560	2.640
11	2.546	2.730	2.770	2.850
12	2.756	2.940	2.980	3.060
13	2.966	3.150	3.190	3.270

Presorted Flats

Maximum Weight (ounces)	Presorted (\$)
1	0.798
2	1.008
3	1.218
4	1.428
5	1.638
6	1.848
7	2.058
8	2.268
9	2.478
10	2.688
11	2.898
12	3.108
13	3.318

Single-Piece Flats¹

Maximum Weight (ounces)	Single-Piece (\$)
1	0.98
2	1.19
3	1.40
4	1.61
5	1.82
6	2.03
7	2.24
8	2.45
9	2.66
10	2.87
11	3.08
12	3.29
13	3.50

Notes

1. A handling charge of \$0.01 per piece applies to foreign-origin, inbound direct entry mail tendered by foreign postal operators, subject to the terms of an authorization arrangement.

Keys and Identification Devices

<u>Maximum Weight (ounces)</u>	<u>Keys and Identification Devices (\$)</u>
<u>1</u>	<u>3.50</u>
<u>2</u>	<u>3.50</u>
<u>3</u>	<u>3.50</u>
<u>4</u>	<u>3.50</u>
<u>5</u>	<u>3.68</u>
<u>6</u>	<u>3.86</u>
<u>7</u>	<u>4.04</u>
<u>8</u>	<u>4.22</u>
<u>9</u>	<u>4.40</u>
<u>10</u>	<u>4.58</u>
<u>11</u>	<u>4.76</u>
<u>12</u>	<u>4.94</u>
<u>13</u>	<u>5.12</u>
<u>1 (pound)</u>	<u>Priority Mail Retail Zone 4 postage plus 0.83</u>
<u>2 (pounds)</u>	<u>Priority Mail Retail Zone 4 postage plus 0.83</u>

Move Update Assessment Charge

Add \$0.07 per assessed piece, for mailings with less than 70 percent of mailpieces passing a Performance Based Verification at acceptance and which cannot demonstrate compliance with Move Update requirements.

Flat Round-Trip Mailer

- a. Flat Round-Trip Mailer service allows a mailer to send a flat-shaped mailpiece to a subscriber at the applicable one (1) ounce Machinable Letter price and pay postage for the return of the contents of that mailpiece at the one (1) ounce Single-Piece Machinable Letter price.
- b. A mailer may either prepay postage for the return mailpiece by using Permit Reply Mail or only pay for mailpieces actually returned by using Business Reply Mail.
- c. Qualifying pieces must contain a standard 12 cm or smaller optical disc.
- d. Pieces weighing no more than two (2) ounces qualify for the one (1) ounce price.
- e. Returned pieces must be picked up by the mailer at designated Postal Service facilities.
- f. Flat Round-Trip Mailers are not subject to prices for:
 - (i) the Nonmachinable Letters price category of Presorted Letters/Postcards, or
 - (ii) the Single-Piece Nonmachinable Letters price category of Single-Piece Letters/Postcards.

Full-service Intelligent Mail Option

Subtract \$0.003 for each automation flat that complies with the requirements for the Full-service Intelligent Mail option.

Picture Permit Imprint Indicia

Add \$0.01 for each piece that includes Picture Permit Imprint Indicia.

Emerging and Advanced Technology Promotion (March 1, 2017 to August 31, 2017)

Provide a two percent discount on the qualifying postage for First-Class Mail presort or automation letters, postcards, and flats, and USPS Marketing Mail letters and flats that are sent during the established program period, and which either include affixed or embedded technology that allows the recipient to engage in a technological experience, or were automatically generated by the recipient's applicable online activities. To receive the discount, mailers must comply with the eligibility requirements of the program.

Earned Value Reply Mail Promotion (January 1, 2017 to June 30, 2017)

Provide a \$0.05 per piece rebate on all Business Reply Mail, Courtesy Reply Mail, and Share Mail pieces that meet program requirements and are placed in the mailstream by the recipient and scanned during the program period. To receive the rebate, registered customers must have distributed a Business Reply Mail, Courtesy Reply Mail, or Share Mail card or envelope, and must comply with all other eligibility requirements of the program.

* * * * *

1120 ~~Parcels~~Reserved

1120.1 ~~Size and Weight Limitations~~

~~Retail (Single-Piece)~~

	Length	Height	Thickness	Weight
Minimum	large enough to accommodate postage, address, and other required elements on the address side			none
Maximum	108 inches in combined length and girth			13 ounces

~~Parcels (Keys and Identification Devices)~~

	Length	Height	Thickness	Weight
Minimum	not applicable			none
Maximum	not applicable			2 pounds

1120.2 ~~Minimum Volume Requirements~~

	Minimum Volume Requirements
Retail	none
Keys and Identification Devices	none

1120.3 ~~Price Categories~~

The following price categories are available for the product specified in this section:

- Retail
 - ~~Single-Piece~~
- ~~Keys and Identification Devices — Payment is due on delivery unless an active Business Reply Mail advance deposit account is used.~~

1120.4 ~~Optional Features~~

~~The following additional postal services may be available in conjunction with the product specified in this section:~~

- ~~Ancillary Services (1505)~~
 - ~~Address Correction Service (1505.1)~~
 - ~~Business Reply Mail (1505.3)~~
 - ~~Certified Mail (1505.5)~~
 - ~~Certificate of Mailing (1505.6)~~
 - ~~Collect on Delivery (1505.7)~~
 - ~~USPS Tracking (1505.8)~~
 - ~~Insurance (1505.9)~~
 - ~~Registered Mail (1505.12)~~
 - ~~Return Receipt (1505.13)~~
 - ~~Signature Confirmation (1505.17)~~
 - ~~Special Handling (1505.18)~~
- ~~Competitive Ancillary Services (2645)~~
 - ~~Adult Signature (2645.1)~~
 - ~~Package Intercept Service (2645.2)~~
- ~~Pickup On Demand Service~~

1120.5 — Prices

*Retail*¹

Maximum Weight (ounces)	Single-Piece (\$)
4	2.67
2	2.67
3	2.67
4	2.67
5	2.85
6	3.03
7	3.21
8	3.39
9	3.57
10	3.75
11	3.93
12	4.11
13	4.29

Notes

1. A handling charge of \$0.01 per piece applies to foreign-origin, inbound direct entry mail tendered by foreign postal operators, subject to the terms of an authorization arrangement.

~~Keys and Identification Devices~~

Maximum Weight (ounces)	Keys and Identification Devices (\$)
1	3.50
2	3.50
3	3.50
4	3.50
5	3.68
6	3.86
7	4.04
8	4.22
9	4.40
10	4.58
11	4.76
12	4.94
13	5.12
1 (pound)	Priority Mail Retail Zone 4 postage plus 0.83
2 (pounds)	Priority Mail Retail Zone 4 postage plus 0.83

~~Pickup On Demand Service~~

~~Add \$22.00 for each Pickup On Demand stop.~~

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1500 Special Services

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1505 Ancillary Services

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1505.8 USPS Tracking

1505.8.1 Description

- a. USPS Tracking service provides mailers of ~~First-Class Mail parcels~~, USPS Marketing Mail parcels, Package Services, Priority Mail, Parcel Select, USPS Retail Ground, and First-Class Package Service pieces with end-to-end tracking updates, including confirmation of delivery, as the item travels to its destination.
- b. USPS Tracking service is automatically included with the purchase of items sent via First-Class Mail Parcels, Package Services, Priority Mail, Parcel Select, USPS Retail Ground, and First-Class Package Service.
- c. USPS Tracking service does not include the collection of any recipient signatures.
- d. Tracking updates may be obtained over the internet, by telephone, via mobile smartphone application, or by electronic file transfer for mailers who provide an electronic manifest. Tracking updates include the location, date, and time of: delivery or attempted delivery, the item's arrival and departure from certain postal facilities, and if the item is forwarded or returned to the sender.
- e. USPS Tracking service may only be obtained at the time of mailing by: applying a unique tracking barcode prior to mailing; or presenting the item at a Post Office, branch, station (including any authorized contractor), or self-service kiosk, for mailing.

1505.8.2 Prices

	(\$)
First-Class Mail Parcels	
— Electronic/Returns with integrated retail system label	0.00
— Retail	0.00
First-Class Package Service	
Electronic	0.00
USPS Marketing Mail Parcels	
Electronic	0.37
Package Services	
Returns with integrated retail system label	0.00
Electronic	0.00
Retail	0.00
Priority Mail	
Electronic/Returns with integrated retail system label	0.00
Retail	0.00
Parcel Select	
Electronic	0.00
USPS Retail Ground	
Electronic/Returns with integrated retail system label	0.00
Retail	0.00

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1505.17 Signature Confirmation

1505.17.1 Description

a. Signature Confirmation service provides mailers of ~~First-Class Mail parcels~~, First-Class Package Service, Package Services, Parcel Select (except Parcel Select Lightweight), USPS Retail Ground, and Priority Mail pieces with a record of delivery, the recipient's signature, and end-to-end tracking updates as the item travels to its destination. If the initial attempt to deliver the item is not successful, a notice of attempted delivery will be provided to the addressee.

PART B

COMPETITIVE PRODUCTS

* * * * *

2125 First-Class Package Service

2125.1 Description

- a. Any mailable matter may be mailed as First-Class Package Service Commercial mail, except matter that meets the definition of “letter” in 39 C.F.R. § 310.1 and does not fit within any of the exceptions or suspensions to the Private Express Statutes in 39 C.F.R. Parts 310 and 320.
- b. First-Class Package Service Commercial mail is not sealed against postal inspection. Mailing of matter as such constitutes consent by the mailer to postal inspection of the contents, regardless of the physical closure.
- c. Any mailable matter may be mailed as First-Class Package Service Retail mail.
- d. First-Class Package Service Retail mail is sealed against postal inspection and shall not be opened except as authorized by law.
- ~~e. First-Class Package Service pieces that are undeliverable-as-addressed are entitled to be forwarded or returned to the sender without additional charge.~~
- ~~d. Postage for First-Class Package Service pieces must be paid for by one of the following methods:
 - ~~○ Registered end-users of USPS-approved PC Postage products when using a qualifying shipping label managed by PC Postage system.~~
 - ~~○ USPS-approved IBI postage meters that electronically transmit transactional data to the USPS.~~
 - ~~○ Permit imprint.~~
 - ~~○ Permit holders using Merchandise Return Service (MRS) for First-Class Package Service mailpieces when all MRS requirements are met (505.3.0).~~~~

Attachments and Enclosures

- a. First-Class Mail or USPS Marketing Mail pieces may be attached to or enclosed in First-Class Package Service mail. Additional postage may be required.

2125.2 Size and Weight Limitations

Commercial Single-Piece

	Length	Height	Thickness	Weight
Minimum	3.5 inches	3.0 inches	0.05 inch	none
Maximum	18 inches	15 inches	22 inch	16 ounces

Retail

	<u>Length</u>	<u>Height</u>	<u>Thickness</u>	<u>Weight</u>
<u>Minimum</u>	<u>large enough to accommodate postage, address, and other required elements on the address side</u>			<u>none</u>
<u>Maximum</u>	<u>108 inches in combined length and girth</u>			<u>13 ounces</u>

2125.3 Minimum Volume Requirements

	Minimum Volume Requirements
<u>Commercial</u> Single-Piece	None
<u>Retail</u>	<u>None</u>

2125.4 Price Categories

The following Single-Piece price categories are available for the product specified in this section:

- Commercial ~~Single-Piece~~
- Retail

2125.5 Optional Features

The following additional postal services may be available in conjunction with the product specified in this section:

- Ancillary Services (1505)
 - Address Correction Service (1505.1)
 - Business Reply Mail (1505.3)
 - Certified Mail (1505.5)
 - Certificate of Mailing (1505.6)
 - Collect on Delivery (1505.7)
 - USPS Tracking (1505.8)
 - Insurance (1505.9)
 - Merchandise Return Service (1505.10)
 - Registered Mail (1505.12)
 - Return Receipt (1505.13)
 - Signature Confirmation (1505.17)
 - Special Handling (1505.18)
- Pickup on Demand Service
- Competitive Ancillary Services (2645)
 - Package Intercept Service (2645.2)

2125.6 Prices

Commercial Single-Piece

Maximum Weight (ounces)	Single-Piece (\$)			
1	2.61			
2	2.61			
3	2.61			
4	2.61			
5	2.77			
6	2.77			
7	2.77			
8	2.77			
9	3.32			
10	3.46			
11	3.60			
12	3.74			
13	3.88			
14	4.02			
15	4.16			
15.999	4.30			

Retail¹

<u>Maximum Weight (ounces)</u>	<u>Single-Piece (\$)</u>
<u>1</u>	<u>2.67</u>
<u>2</u>	<u>2.67</u>
<u>3</u>	<u>2.67</u>
<u>4</u>	<u>2.67</u>
<u>5</u>	<u>2.85</u>
<u>6</u>	<u>3.03</u>
<u>7</u>	<u>3.21</u>
<u>8</u>	<u>3.39</u>

<u>9</u>	<u>3.57</u>
<u>10</u>	<u>3.75</u>
<u>11</u>	<u>3.93</u>
<u>12</u>	<u>4.11</u>
<u>13</u>	<u>4.29</u>

Notes

1. A handling charge of \$0.01 per piece applies to foreign-origin, inbound direct entry mail tendered by foreign postal operators, subject to the terms of an authorization arrangement.

Irregular Parcel Surcharge

Add \$0.20 for each irregularly shaped parcel (such as rolls, tubes, and triangles).

IMpb Noncompliance Fee

Add \$0.20 for each IMpb-noncompliant parcel paying Commercial prices.

Pickup On Demand Service

Add \$22.00 for each Pickup On Demand stop.

Updated Statement of Supporting Justification

I, Karen F. Key, Director of Shipping Products and Services, sponsor the Postal Service's request that the Postal Regulatory Commission ("Commission") transfer First-Class Mail Parcels to the list of competitive products as a retail category of First-Class Package Service ("FCPS").¹ This statement supports the Request by providing the information required by each applicable subsection of 39 C.F.R. § 3020.32, as indicated below. I attest to the accuracy of the information contained herein.

- (a) *Demonstrate why the change is in accordance with the policies and the applicable criteria of chapter 36 of title 39 of the United States Code.*

As demonstrated below in subsections (b) through (i), the change complies with the applicable statutory provisions.

- (b) *Explain why, as to market dominant products, the change is not inconsistent with each requirement of 39 U.S.C. 3622(d), and that it advances the objectives of 39 U.S.C. 3622(b), taking into account the factors of 39 U.S.C. 3622(c).*

As the Request is for a transfer to the competitive product list, this subsection is not applicable.

- (c) *Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. 3633.*

Section 3633 sets forth three standards for competitive products. Subsection (a)(1) prohibits the subsidization of competitive products by market-dominant products. Subsection (a)(2) requires that each competitive product covers its attributable costs. And subsection (a)(3) requires that all competitive products collectively cover an

¹ This Statement generally uses the term First-Class Mail Parcels to refer to this mail category both before and after the transfer.

appropriate share of Postal Service institutional costs, which the Commission has determined to be 5.5 percent.

In Fiscal Year (“FY”) 2016, First-Class Mail Parcels had a cost coverage of 121.1 percent.² After the transfer, the Postal Service will maintain First-Class Mail Parcels’ seal against inspection. Accordingly, the Postal Service will raise prices to avoid the application of the Private Express Statutes to packages that might contain letters.³ See 39 U.S.C. § 601(b)(1). Further, since the present Request proposes to make First-Class Mail Parcels the retail category of FCPS, which had a cost coverage of 141.3 percent in FY 2016, it is unlikely that the new combined FCPS product would fall below full attributable cost coverage. Therefore, if the transfer of First-Class Mail Parcels is approved, the redefined FCPS product should satisfy subsections (a)(1) and (2) of Section 3633.

As to subsection (3) of Section 3633, the Commission has determined that competitive products, as a whole, must cover at least 5.5 percent of the Postal Service’s total institutional costs. See 39 C.F.R. § 3015.7(c). Given that First-Class Mail Parcels is expected to cover its attributable costs in FY 2017, and that an additional price increase will be necessary to align the product design with the Private Express Statutes, the Postal Service is confident that the new combined FCPS product will not cause competitive products to cover less than 5.5 percent of the Postal Service’s institutional

² Docket No. ACR2016, Financial Analysis of United States Postal Service Financial Results and 10-K Statement for Fiscal Year 2016, at 92 (March 31, 2017).

³ The Postal Service believes that it is necessary to raise First Class Mail Parcels’ prices to comply with 39 U.S.C. § 601(b)(1), so that it will not be forced to inspect First-Class Mail Parcels to verify that they do not contain letters. The Postal Service believes that this product’s current seal against inspection is a desirable and longstanding feature that should not be changed as part of this transfer.

costs. Accordingly, the transfer of First-Class Mail Parcels to the competitive product list should satisfy subsection (a)(3) of Section 3633.

- (d) *Verify that the change does not classify as competitive a product over which the Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products: (1) set the price of such product substantially above costs; (2) raise prices significantly; (3) decrease quality; or (4) decrease output.*

First-Class Mail Parcels offers fast delivery of any mailable matter (weighing less than 13 ounces) in 1-3 days, with weight-based prices ranging from one to thirteen ounces. Depending on the origin and destination ZIP Code pairs, First-Class Mail Parcels may travel by ground or by air. An analysis of the Postal Service's FY 2016 Indicia and Shape data ("Indicia Data") indicates that First-Class Mail Parcels' customer base consists primarily of small businesses and individual consumers who pay for postage at the retail counter and online.⁴ However, the 2016 Indicia Data indicate that this product also serves a considerable number of large commercial mailers.⁵ The fact that large commercial mailers are using both FCMP and FCPS indicates that these products serve a single marketplace, and ought to be combined. As the Postal Service stated in the Request, such a combination will allow the Postal Service to better manage this product line by more closely aligning the retail and commercial prices.

Based on the product features and customer groups discussed above, the Postal Service believes that First-Class Mail Parcels competes in the "2-3 Day Air" and

⁴ The FY 2016 Indicia Data indicate that 44 percent of First-Class Mail Parcel shipments were paid for using stamps or Postal Validation Imprint (generally associated with consumers and small businesses paying at the retail counter). The Indicia Data further indicate that 51 percent of First-Class Mail parcel shipments were paid for using PC Postage (generally associated with small business customers).

⁵ Large commercial customers sent approximately 5 percent of First-Class Mail Parcels' FY 2016 volume (which equals approximately 36 million pieces) using permit imprint. Large commercial mailers occasionally use First-Class Mail Parcels when dropping their other parcels directly at the Destination Delivery Units.

“Ground” Parcel Markets for retail and commercial customers.⁶ The table below shows the estimated market share distribution (by volume) across these markets for the new First-Class Package Service (including First-Class Mail Parcels):

***Market Share of New First-Class Package Service
(Including First-Class Mail Parcels Volume)***

	2-3 Day and Ground Markets (up to 70 lbs.)	2-3 Day and Ground Markets (Under 1lb.)	Entire Parcel Market
2016 Market Share By Volume	8.6%	35.9%	7.9%

Source: The Colography Group

As the above table indicates, the new FCPS product would not have a dominant market share, whether measured as a percentage of the combined 2-3 Day Air and Ground markets, the under-one-pound segment of the same markets, or the entire parcel market.⁷ It is also worth noting that, even after recent above-average price increases, prices for the current FCMP category are artificially low because of the price cap. Since the new combined FCPS product will not dominate the market, however, the Postal Service cannot raise prices significantly or decrease the quality of this product without risk of losing a significant level of business to its competitors, as discussed below in Section (g).

⁶ Though some First-Class Mail Parcels are delivered in one day, the Postal Service does not believe that customers consider First-Class Mail Parcels to be an overnight product. Accordingly, the Postal Service does not consider this product to be a part of the overnight parcel market.

⁷ In addition, as the chart provided in response to Chairman's Information Request No. 2, Question 2.b demonstrates, when the current First-Class Mail Parcels Retail category is isolated from the proposed combined FCPS volume, it represents an even smaller share of the relevant markets. Response of the United States Postal Service to Chairman's Information Request No. 2, Question No. 2b (June 26, 2017).

- (e) *Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. 1696 subject to the exceptions set forth in 39 U.S.C. 601.*

The contents of First-Class Mail Parcels will be outside the scope of the letter monopoly, or for any letters contained in such parcels, within the scope of the exceptions or suspensions to the Private Express Statutes.

First-Class Mail parcels typically contain merchandise, which is not subject to the Private Express Statutes. See 39 C.F.R § 310.1 (defining a letter). To the extent that First-Class Mail Parcels contain any types of documents, such documents would likely include invoices, receipts, or incidental advertising. With respect to any invoices or receipts accompanying merchandise in First-Class Mail Parcels, the exception for cargo in 39 C.F.R. § 310.3(a) permits the inclusion of such matter because it both accompanies and relates “in all substantial respects to some part of the cargo or to the ordering, shipping or delivering of the cargo.” Incidental, non-addressed, non-personalized advertising enclosed in a FCMP item will also be within the scope of 39 C.F.R § 320.7. This suspension permits the private carriage of advertisements "enclosed with merchandise in parcels" to be carried privately, as long as the advertisements (i) are not marked with the names or addresses of intended recipients, and (ii) are incidental to the shipment of merchandise or periodicals.

Finally, with respect to any letters that might be contained in First-Class Mail Parcels, the Postal Service plans to raise prices to the levels necessary to fit within the price exception for letters in 39 U.S.C. § 601(b)(1). This exception permits the inclusion of letters in First-Class Mail Parcels, because the price paid for the carriage will be “at least the amount equal to 6 times the rate then currently charged for the 1st ounce of a

single-piece first class letter.” Since the current price for a one-ounce single-piece First-Class Mail letter is \$.049, the base price for the new retail FCPS category must be raised to at least \$2.94. Accordingly, with the planned price adjustment, First-Class Mail Parcels will not contain letters other than those within the scope of the exceptions or suspensions to the Private Express Statutes.⁸

(f) *Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.*

First-Class Mail Parcels compete primarily against the parcel shipping services offered by UPS and FedEx. UPS’s and FedEx’s primary business is the transportation of parcels. Both companies’ prices vary based on the weight of a parcel, the parcel’s destination, and the desired date of delivery. As described in subsection (d) above, First-Class Mail Parcels are delivered within 1-3 days and can travel by air or ground depending on the origin and destination ZIP Codes. Given these product features, UPS’s main competitor services are its 2nd Day Air, 3-Day Select, and Ground products.⁹ FedEx’s main competitor services include its One Rate offering, as well as its 2-Day, Express Saver, Ground, and Home Delivery products.¹⁰ Unlike First-Class Mail Parcels or FCPS, these competing products offer additional features such as money-back guarantees and insurance up to a specific declared value.

⁸ These price changes would be proposed in a separate Competitive price change case that would be completed before implementing the new FCPS category.

⁹ Product descriptions and rates can be found in UPS’ Rate and Service Guide, available at: https://www.ups.com/assets/resources/media/retail_rates.pdf

¹⁰ Product descriptions and rates can be found in FedEx’s Service Guide, available at: http://images.fedex.com/us/services/pdf/Service_Guide_2017.pdf

- (g) *Provide any information available on the views of those who use the product on the appropriateness of the proposed modification.*

Given that service standards will remain the same after the proposed transfer, customers' major concern would likely be the effect of the transfer on prices. Though a price increase will be necessary to ensure that First-Class Mail Parcels falls within the price exception to the Private Express Statutes, from a business standpoint, the Postal Service cannot raise FCMP prices above those for competing products offered by UPS and FedEx without losing business. Such competition will help ensure that First-Class Mail Parcels remains amongst the most affordable options for shipping lightweight items.

In addition, the Postal Service recognizes that those living in rural communities without a competitive package delivery market may be concerned that this proposal represents an attempt to limit package delivery service to and from rural areas. However, as mentioned above, First-Class Mail Parcels' service standards will remain the same once it is transferred to the competitive product list. Further, though it is a long-established practice of commercial carriers to assess surcharges on deliveries to rural communities, the Postal Service does not intend to implement such fees. Accordingly, customers residing in rural communities will continue to enjoy the same reliable, surcharge free package delivery service that they currently receive.

- (h) *Provide a description of the likely impact of the proposed modification on small business concerns.*

The transfer of First-Class Mail Parcels to the competitive product list is unlikely to result in any disproportionate impact on small business concerns. Similar to individual consumers, small businesses will likely be concerned with the potential for

price increases. However, for the reasons discussed in subsection (g), such concerns should be ameliorated by the fact that the Postal Service cannot raise FCMP prices above those for competing products offered by UPS and FedEx without losing business. As a result, the Postal Service has a strong business incentive to keep prices below those offered by its competitors. Concerning the effect of the proposed transfer on small business shipping providers, the Postal Service is not aware of any small businesses that offer products that compete with First-Class Mail Parcels.

- (i) *Include such information and data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.*

As discussed above, the Postal Service believes that there is no legal or business purpose for maintaining the segmentation of its lightweight, one-to-three-day package offerings into a market dominant product for retail customers and a competitive product for commercial customers. Packages are packages, regardless of who ships them, and package shipping is a seamless marketplace. Indeed, the current classification of First-Class Mail Parcels on the market dominant product list, rather than on the competitive product list, is largely an artifact of the product's history and the timing of the transfer request. Therefore, shifting First-Class Mail Parcels to the competitive product list as a retail category of FCPS would create a more logical structure for the Postal Service's lightweight parcel offerings.